

Message Text

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SUBJ: BANK OF GREECE GOVERNOR ZOLOTAS REVIEWS GREEK ECONOMIC POLICIES

REF ATHENS A-82

1. SUMMARY AND COMMENT - THIS YEAR'S BANK OF GREECE GOVERNOR'S REPORT IS OF GREATER THAN USUAL INTEREST BECAUSE OF ZOLOTAS' PERSONAL ROLE IN GREECE'S ECONOMY, AND BECAUSE IT CONTAINS A COMPREHENSIVE REVIEW OF THE GENERAL DIRECTIONS OF CURRENT GREEK ECONOMIC POLICY. FOR THE SHORT TERM, GOG IS AIMING AT MODERATE STIMULATION OF ECONOMY, WITH MONETARY STABILITY AND MINIMIZATION OF CURRENT ACCOUNT DEFICIT. GOG WILL GUIDE ECONOMY TOWARDS OVERALL LONG-TERM OBJECTIVE - THE ELIMINATION OF STRUCTURAL WEAKNESSES-THROUGH GOVERNMENT REGULATIONS, INCENTIVE PROGRAMS, CREDIT POLICY, AND PUBLIC INVESTMENT. KEY ELEMENTS

IN PROCESS INCLUDE FOSTERING OF THE GROWTH OF A MORE COMPETITIVE ENVIRONMENT, THE DEVELOPMENT OF "OPTIMAL SIZE" INTERPRISE, THE APPLICATION OF MODERN TECHNOLOGY, AND A GREATER EMPHASIS ON EXPORT
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TRADE. AMONG SPECIFIC SECTORAL TARGETS, THE GOVERNMENT WILL SEEK TO

TO INCREASE FARM INCOME AND OUTPUT, AND IN THE INDUSTRIAL SECTOR TO PROMOTE A SHIFT FROM FINAL ASSEMBLY TOWARDS THE INITIAL STAGES OF PRODUCTION, THEREBY INCREASING LOCAL VALUE ADDED AND REDUCING THE IMPORT COMPONENT. STRUCTURAL REFORM WILL, IN LONG RUN, AMELIORATE BALANCE OF PAYMENTS PROBLEM; SHORT RUN POLICY IS TO MAXIMIZE FOREIGN EXCHANGE RECEIPTS AND IMPORT SUBSTITUTION. ZOLOTAS EMPHASIZED THAT TOP PRIORITY WOULD BE GIVEN TO THE PENETRATION OF MIDDLE EASTERN MARKETS. COPIES OF ENGLISH STATEMENT POUCHED VIA REPAIR.

2. GENERAL OVERVIEW - ZOLOTA NOTED THAT MEASURES TAKEN SINCE JULY RETURN OF CARAMANLIS HAVE CONTRIBUTED TO SUBSTANTIAL SLOWDOWN IN RATE OF INFLATION. PRICE RISES IN FIRST QUARTER 1975 DUE SPECIAL FACTORS, AND DO NOT SIGNAL REVERSAL OF ALLEVIATION OF INFLATION. BALANCE OF PAYMENTS DEFICIT STILL A PROBLEM DUE TO INCREASE IN OIL PRICES, ESSENTIAL DEFENSE PURCHASES, AND UNFAVORABLE DEVELOPMENTS IN INVISIBLE EARNINGS- WHICH DUE MOSTLY TO RECESSIONARY CONDITIONS ABROAD. MEASURES TAKEN IN AUGUST 1974, AND RESTORATION OF CLIMATE OF CONFIDENCE CREATED BY RETURN TO DEMOCRATIC RULE, "CONTRIBUTED TO CHECKING THE RECESSION BY THE END OF LAST YEAR." CURRENT POLICY AIMS AT "GRADUALLY REFLATING THE ECONOMY IN A MANNER THAT WILL NOT HAVE ADVERSE REPERCUSSIONS ON THE BALANCE OF PAYMENTS OR PRICES."

3. MONETARY AND CREDIT POLICY - IT IS CONSIDERED NECESSARY TO MAINTAIN CREDIT EXPANSION WITHIN THE LIMITS DETERMINED BY THE AMOUNT OF SAVINGS THAT CAN BE MOBILIZED FROM DOMESTIC AND FOREIGN SOURCES. THE BORROWING REQUIREMENTS OF THE GOVERNMENT AND PUBLIC ENTERPRISES ARE ESTIMATED AT CLOSE TO 50 BILLION DRACHMAS FOR 1975. MONETARY AUTHORITIES ARE GIVING PRIORITY TO FINANCING PRIVATE PRODUCTIVE INVESTMENT IN MANUFACTURING AND AGRICULTURE, AND ATTEMPTING TO STIMULATE BUILDING ACTIVITY THROUGH HOUSING LOANS.

4. SAVINGS AND BANK DEPOSITS - DEVELOPMENTS IN 1973 AND 1974 INDICATED A DECLINE IN THE PROPENSITY TO SAVE, WITH INFLATION AND RECESSION BOTH SERVING TO DISCOURAGE SAVINGS. THE ENHANCEMENT OF ATTRACTIVENESS OF BANK DEPOSITS IS OF PRIMARY IMPORTANCE, AND THIS IS DEPENDENT UPON MONETARY STABILITY. MOBILIZATION OF SAVINGS SHOULD ALSO BE IMPROVED THROUGH ISSUANCE OF NEW TYPES OF SECURITIES ENSURING EITHER LIQUIDITY AND HIGHER YIELDS OR HIGHER YIELDS COMBINED WITH GREATER SAFETY.

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5. FISCAL POLICY - THE PUBLIC SECTOR DEFICIT IS ESTIMATED AT 43.5 BILLION DRACHMAS (ACCORDING TO PRIOR OFFICIAL GOG BUDGET MESSAGE, DEFICIT WAS EXPECTED TO BE 41.2 BILLION DRACHMAS), WHICH REPRESENTS 6.1 PERCENT OF ESTIMATED GNP AT CURRENT PRICES FOR 1975 (COMPARED TO 4.7 PERCENT IN 1974). PERCENTAGE IS HIGH AND SEEMS "TO EXHAUST POSSIBILITIES OF FISCAL POLICY AS A MEANS OF REFLATING THE ECONOMY." THE INCREASE IN BUDGET DEFICIT OVER 1973 IS DUE TO IMPACT OF INFLATION

AND RECESSION ON GOVERNMENT REVENUES AND EXPENDITURES, AND TO BURDEN OF EXCEPTIONAL OUTLAYS FOR NATIONAL DEFENSE PURPOSES AND IMPLEMENTATION OF THE POLICY TO SUPPORT AGRICULTURAL INCOMES. RECENT TAX MEASURES HAVE AIMED AT MORE EQUITABLE DISTRIBUTION OF THE TAX BURDEN, WHILE OTHERS (E.G. ROAD AND FUEL TAXES) WERE DICTATED BY BALANCE OF PAYMENTS CONSIDERATIONS.

6. INCOMES POLICY - A RATIONAL INCOMES POLICY IS ANOTHER MEANS OF REFLATING THE ECONOMY AND GOG HAS ACTED TO SUPPORT AGRICULTURAL INCOMES, AND TO INCREASE MINIMUM WAGES AND SALARIES AND PENSIONS OF CIVIL SERVANTS. GOG MUST TAKE CARE TO AVOID UNDERMINING MONETARY STABILITY IN THIS AREA. INCOMES POLICY EXTENDS TO EXCESSIVE BUSINESS PROFITS AS WELL, WHICH SHOULD BE SUBJECT TO CONTROL.

7. BALANCE OF PAYMENTS - THE STRUCTURAL WEAKNESS AND INFLATIONARY PRESSURES OBSERVED IN THE ECONOMY ARE REFLECTED IN THE BALANCE OF PAYMENTS, WHICH HAD ALREADY DETERIORATED BEFORE THE RISE IN OIL PRICES. GOVERNMENT POLICY MUST HAVE TWO OBJECTIVES: FIRST, THE GRADUAL

REDUCTION OF THE CURRENT ACCOUNT DEFICIT TO REDUCE SHORT-TERM BORROWING

PRINCIPALLY BY STRENGTHENING THE ECONOMY'S COMPETITIVENESS; SECOND, THE IMPROVEMENT OF THE COMPOSITION OF CAPITAL INFLOW, CHIEFLY BY INCREASING THE INFLOW OF DIRECT INVESTMENT CAPITAL. FOR IMMEDIATE RESULTS, TO INCREASE FOREIGN EXCHANGE RECEIPTS AND IMPORT SUBSTITUTION, APPROPRIATE MEASURES INCLUDE STIMULATION OF AGRICULTURAL

PRODUCTION TO REDUCE IMPORT BILL; APPLICATION OF TAXES TO HELP MINIMIZE PETROLEUM IMPORTS; STRICTER CONTROL ON PUBLIC SECTOR PROCUREMENT FROM ABROAD; AND PREVENTION OF OVERPRICING OF IMPORTED COMMODITIES. LONGER-TERM POLICIES SHOULD INDUCE MODERNIZATION OF INDUSTRY AND REDUCTION OF IMPORTS OF INTERMEDIATE GOODS. TOP PRIORITY MUST BE GIVEN TO PENETRATION OF MIDDLE EAST MARKETS.

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ZOLOTAS NOTED THAT DISASSOCIATION OF DRACHMA FROM DOLLAR WILL HAVE FAVORABLE EFFECT ON THE BALANCE OF PAYMENTS BECAUSE IT PROVIDES GREATER STABILITY FOR DRACHMA VIS-A-VIS CURRENCIES OF GREECE'S MAJOR TRADING PARTNERS, REDUCES UNCERTAINTIES FOR GREEK BUSINESS, AND GIVES GOG MORE INDEPENDENCE IN ITS FOREIGN EXCHANGE POLICY.

8. INDUSTRIAL DEVELOPMENT - REFORM OF GOVERNMENT SUBSIDIES AND REGULATIONS IS REQUIRED TO PROMOTE COMPETITION AND PRIVATE INITIATIVE, AND ENCOURAGE OPTIMUM SIZE UNITS, LONG-TERM INVESTMENT, AND MODERN TECHNOLOGY. A NEW INDUSTRIAL DEVELOPMENT POLICY WILL ENCOURAGE FIRMS TO MAKE THE MOST OF POSSIBILITIES OFFERED BY EEC ASSOCIATION. ZOLOTAS OBSERVED, WITHOUT ELABORATION, THAT IN ORDER TO ATTRACT FOREIGN INDUSTRIAL INVESTMENT, GOVERNMENT POLICY TOWARDS FOREIGN CAPITAL--AS WELL AS THE "CRITERIA TO BE MET BY FOREIGN INVESTORS"--MUST BE CLEARLY DEFINED.

9. AGRICULTURAL POLICY - GOG POLICY OF SUPPORTING AGRICULTURAL INCOME AIMS AT: (A) FULLER UTILIZATION OF AGRICULTURAL SECTOR'S PRODUCTIVE CAPACITY, AND (B) GROWTH OF AGRICULTURAL INCOME. LONGER-TERM OBJECTIVES FOR STRUCTURAL CHANGE SHOULD BE: RATIONAL PRICING SYSTEM FOR BASIC AGRICULTURAL PRODUCTS (INCLUDING ADOPTION OF EEC METHODS FOR SUPPORTING AGRICULTURAL INCOME); REFORM OF AGRICULTURAL MARKETING; REVISION OF SUBSIDY SYSTEM; THE ENCOURAGEMENT OF FARM COOPERATIVES AND LARGE FARM UNITS; AND REFORM OF THE AGRICULTURAL BANK'S LOAN CRITERIA.

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